

# TEST ♦ Chapter 6, Test Form A

## SAVING AND INVESTING

SCORE
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### USING KEY TERMS

**Matching:** Match each item in Column A with the items in Column B. Write the correct letters in the blanks.

#### A

- \_\_\_\_\_ 1. time deposit
- \_\_\_\_\_ 2. savings
- \_\_\_\_\_ 3. savings bond
- \_\_\_\_\_ 4. maturity
- \_\_\_\_\_ 5. mutual fund
- \_\_\_\_\_ 6. interest
- \_\_\_\_\_ 7. capital gain
- \_\_\_\_\_ 8. Treasury bills
- \_\_\_\_\_ 9. individual retirement account (IRA)
- \_\_\_\_\_ 10. certificate of deposit

#### B

- a. period of time after which time deposits will pay a stated rate of interest
- b. time deposit that states the amount of the deposit, the maturity, and the rate of interest being paid
- c. investment company that pools the money of many individuals to make short-term loans to businesses and banks
- d. certificates issued by the U.S. Treasury with maturities of three months to one year
- e. setting aside income for a period of time so that it can be used later
- f. savings plan that requires savers to leave their money on deposit for a certain period of time
- g. private retirement plan that allows individuals or married couples to defer taxation on the interest they earn on their retirement savings
- h. increase in value of an asset between the time it is purchased and the time it is sold
- i. payment people receive when they lend money
- j. bond issued by the federal government

### RECALLING FACTS AND IDEAS

**Multiple Choice:** In the blank at the left, write the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 11. Keogh and IRA plans allow people to do all of the following except
  - a. save money each year for retirement.
  - b. withdraw money from their accounts at the end of every year without penalty.
  - c. establish their own pension plans.
  - d. defer taxation of the interest they earn on their accounts.
  
- \_\_\_\_\_ 12. A person who buys a stock for \$20 and sells it for \$30 has earned \$10 in
 

<ul style="list-style-type: none"> <li>a. interest.</li> <li>c. dividends.</li> </ul>	<ul style="list-style-type: none"> <li>b. profit per share.</li> <li>d. capital gains.</li> </ul>
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**TEST** (continued) **Chapter 6, Test Form A**

- \_\_\_\_\_ **13.** The largest stock exchange in the world is the
- a. Midwest Stock Exchange.
  - b. Tokyo Stock Exchange.
  - c. New York Stock Exchange.
  - d. London Stock Exchange.
- \_\_\_\_\_ **14.** Interest earned on a Roth IRA is
- a. tax deferred.
  - b. tax free.
  - c. taxable upon retirement.
  - d. taxable up to \$2,000 a year.
- \_\_\_\_\_ **15.** The Dow Jones Industrial Average is
- a. a mutual fund.
  - b. another name for the S&P 500.
  - c. traded over-the-counter.
  - d. a stock index.

**CRITICAL THINKING QUESTIONS**

**Directions:** Answer each of the following sets of questions on a separate sheet of paper.

- 16. Analyzing Information** If your bank paid simple interest of 4.25 percent, compounded annually, how much interest would you earn after three years on an initial deposit of \$750?
- 17. Analyzing Information** How would you expect the return on a stock market fund to differ from the return on a savings account? Why do you think the two rates of return differ?

**APPLYING SKILLS**

**Determining Averages—Mean and Median:** Study the following table and answer the questions below.

**Interest Rates on U.S. Treasury Bills, 1995–99  
(in percent)**

Year	Interest Rate
1995	5.17
1996	4.87
1997	5.16
1998	4.48
1999	6.09

- 18.** What was the average interest rate paid on Treasury bills between 1995 and 1999?
- 19.** What was the median interest rate paid over the same period?
- 20.** How much interest would you have earned if you invested \$10,000 in a U.S. Treasury bill in 1998 and held it for one year?

# TEST ♦ Chapter 6, Test Form B

## SAVING AND INVESTING

### SCORE

### USING KEY TERMS

**Matching:** Match each item in Column A with the items in Column B. Write the correct letters in the blanks.

#### A

- \_\_\_\_\_ 1. tax-exempt bonds
- \_\_\_\_\_ 2. over-the-counter market
- \_\_\_\_\_ 3. certificate of deposit
- \_\_\_\_\_ 4. broker
- \_\_\_\_\_ 5. pension plan
- \_\_\_\_\_ 6. diversification
- \_\_\_\_\_ 7. Treasury notes
- \_\_\_\_\_ 8. Keogh plan
- \_\_\_\_\_ 9. maturity
- \_\_\_\_\_ 10. mutual fund

#### B

- a. certificates issued by the U.S. Treasury in exchange for a minimum of \$1,000
- b. a person who acts as a go-between for buyers and sellers of stocks and bonds
- c. company plan that provides for retirement income
- d. bonds sold by local and state governments on which interest is not taxed by the federal government
- e. retirement plan that allows self-employed people to save up to 15 percent of their income in a tax-deductible account
- f. time deposit that states the amount of the deposit, maturity, and rate of interest being paid
- g. investment company that pools the money of many individuals to buy stocks, bonds, or other investments
- h. period of time after which time deposits will pay a stated rate of interest
- i. spreading of investments in several different types of accounts to lower overall risk
- j. electronic purchase and sale of stocks and bonds, often of smaller companies, which takes place outside the organized stock exchanges

### RECALLING FACTS AND IDEAS

**Multiple Choice:** In the blank at the left, write the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 11. The Federal Deposit Insurance Corporation (FDIC) insures
  - a. commercial bank accounts.
  - b. money market accounts.
  - c. credit union accounts.
  - d. accounts at all financial institutions.
- \_\_\_\_\_ 12. Relative to a stock, a bond provides
  - a. higher dividend.
  - b. lower dividend.
  - c. higher level of risk.
  - d. lower level of risk.
- \_\_\_\_\_ 13. Savings bonds sell for less than their face value because
  - a. banks compete to sell them.
  - b. this is how they pay interest.
  - c. they pay dividends twice a year.
  - d. interest is tax-exempt.

**TEST** (continued) **Chapter 6, Test Form B**

- \_\_\_\_\_ 14. Money market funds
- a. are insured by FDIC.
  - b. pay lower interest than savings accounts.
  - c. allow investors to write checks.
  - d. are also known as stock funds.
- \_\_\_\_\_ 15. Treasury bonds
- a. pay dividends twice a year.
  - b. are good short-term investments.
  - c. are tax-exempt bonds that fund municipal projects.
  - d. are certificates issued by the U.S. Treasury.

**CRITICAL THINKING QUESTIONS**

**Directions:** Answer each of the following sets of questions on a separate sheet of paper.

16. **Identifying Alternatives** List four investment alternatives American investors face and explain the advantages and disadvantages of each.
17. **Making Comparisons** How does the FDIC increase confidence in the U.S. banking system? What happened before the FDIC was created?

**APPLYING SKILLS**

**Determining Averages—Mean and Median:** Study the following table and answer the questions below.

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18. How much interest would you have earned if you invested \$20,000 in a U.S. Treasury bill in 1995 and held it for one year?
19. What was the average interest rate paid on Treasury bills between 1997 and 1999?
20. What was the median interest rate paid over the same period?